A GOLD STANDARD FOR THE STRAITS SETTLEMENTS.

THE decade from 1870 to 1880 was noteworthy in monetary history for the extensive substitution throughout the western world of a gold standard currency for the previously dominant bimetallic standard. The ten years beginning with the closing of the Indian mints in 1893 will in like manner be noteworthy for the extensive substitution in the eastern world of the gold standard for the silver standard which had theretofore existed throughout almost the entire Orient from time immemorial.

Among the most recent of oriental countries to undertake the adoption of a gold standard currency is the Straits Settlements. This British colony, composed of Singapore, Penang, Malacca and their dependencies, is one of the great entrepôts of the shipping trade of the Orient. Like most eastern countries it has had a varied monetary experience.[1] The tin "pice," the various kinds of silver rupees, the Dutch rix dollar, the Japanese copang, the Carolus dollar of Spain, the Mexican and British dollars and their kindred South American coins, as well as sterling coins and money coined by the Straits Settlements themselves, have all had at one time or another a wide circulation in the Malay peninsula. From early in the sixteenth century until the present time, however, in spite of several attempts to displace it,[2] the principal medium of exchange and the real money of account of the Straits Settlements has been the old Spanish dollar or some of its illustrious descendants like the Mexican and British dollar.

In 1867, the year of the transfer of the Straits Settlements from the control of the Indian government to that of the secretary of state for the colonies, an ordinance was passed repealing all laws making Indian coins legal tender and declaring that, after April 1 of that year, "the dollar issued from her Majesty's mint at Hongkong, the silver dollar of Spain, Mexico, Peru and Bolivia, and any other silver dollar to be specified from time to

[1] An excellent brief historical treatment of the Straits Settlements currency will be found in Chalmers' Colonial Currency, chap. 38.

[2] *Ibid.*

time by the Governor in Council, shall be the only legal tender" with the exception of certain subsidiary coins.[1] Since 1871 subsidiary coins for the Straits Settlements have been struck by the royal mint. An order in council dated October 21, 1890, repealed all previous laws with reference to legal tender in the colony and declared the Mexican dollar the standard of value, at the same time giving unlimited legal tender to the Japanese yen, the Hongkong dollar and half-dollar and the American trade dollar. Prior to the passage of the currency law of 1903 two subsequent orders in council of importance, relative to the currency, were passed under dates of February 2, 1895, and October 20, 1898. These orders taken together removed the legal tender quality from the American trade dollar and the Japanese yen, reaffirmed the law making the Mexican dollar the standard coin and declared that the Hongkong dollar and the recently coined British dollar should be legal tender and be treated as equal to the standard dollar. The Straits currency thus established was, with a slight modification, adopted by the Federated Malay States.

About the beginning of the calendar year 1903 the actual currency of the Straits Settlements, the Federated Malay States and Johore was roughly estimated as follows:[2]

(1) About thirty million British and Mexican dollars, of which by far the larger part was British dollars, and of which nearly a third represented coin held in reserve against the government's note issue.

(2) Nearly seven million dollars of Straits Settlements subsidiary coins, of which it was officially estimated that something like $300,000 had been shipped out of the country.

(3) An unknown amount of copper coins, the remainder of a total coinage since 1871 officially stated at 1,887,500 dollars (nominal), of which large quantities had been shipped out of the country.

(4) About thirteen million dollars of government notes.

The effect of the fall in the gold price of silver was similar in the Straits Settlements to what it was in India, Mexico and the other silver standard countries of the world which had extensive

[1] Report of the Straits Settlements Currency Committee. London, May, 1903. pp. 4 and 5.

[2] *Ibid.*, pp. 5 and 6.

trade relations with gold standard countries. The evils resulting to local business from the rapidly falling and fluctuating exchange with gold standard countries finally became so serious in 1893, after the closing of the Indian mints and the calling of the extra session of the Congress of the United States to consider the repeal of the Sherman law, that the British colonial secretary telegraphed to the governor of the Straits Settlements for a report as to possible remedial measures in the direction of securing for the colony greater stability of exchange. In response to this telegram a special committee was appointed by the governor to investigate local monetary conditions and to suggest remedial measures. The committee examined a considerable number of witnesses, whom they considered "fair representatives of the thinking men of the colony of all classes," and found that, with the exception of the majority of the Chinese traders, the witnesses examined were "mostly in accord in declaring that the fall in exchange has been disadvantageous to these Settlements." In spite of this fact, however, the committee was unable to agree upon any proposition favoring the introduction of the gold standard, and their report was divided. Half of the twelve members of the committee favored a gold standard, five of them advocating the introduction of the rupee, upon the plan which had at that time but recently been adopted by India, provided, however, that that plan should prove a success in India. The other half of the committee, including all the native members, favored a continuation of the silver standard.[1]

From 1893 to 1897 there was considerable agitation and newspaper discussion in the Straits Settlements concerning the advisability of adopting a gold standard, but nothing came of it until 1897, when on August 25 the committee of the Singapore chamber of commerce, by a unanimous vote, adopted a resolution favoring the establishment of a fixed par of exchange with gold countries, and appointed a committee "to enquire into the local currency with the view of calling attention of government to the question of converting the Straits currency to a gold standard."

[1] A copy of the report of this committee is given in Appendix xvi of the Minutes of Evidence and Appendices of the Straits Settlements Currency Committee, London, May, 1903.

The essence of the recommendations of this sub-committee may be summed up as follows: [1]

(a) The adoption of the English sovereign as the basis of the new currency "with a Straits dollar — fixed at the value of 2*s.* — subsidiary to it." The existing subsidiary silver coinage to continue unchanged except for being placed upon a gold basis.

(b) The government

not to let its intention be known, and, when a decision is arrived at, to pass a law at one sitting of the legislative council, and immediately thereafter issue a notification to the effect that during a term sufficiently brief to prevent importation, all dollar coins then legally current in the colony would be received at certain specified places and government currency notes given in exchange; and that, after the expiry of such term, the British, Mexican, and other dollars in circulation would be demonetized;

the Federated Malay States to promulgate the same law simultaneously.

(c) From the stock of silver obtained by the government from its exchange of notes for British and Mexican dollars a limited supply of the new two-shilling dollars to be coined, these dollars to contain an amount of silver of from sixty to seventy per cent of that contained in the British and Mexican dollars, the seigniorage to accrue to the gold reserve.

Nothing of any consequence in the way of monetary reform developed from the above plan. It was severely criticised by the governor, by the president general of the Federated Malay States, and by many others in high position.[2] This criticism was based on the following grounds:

(1) The expense involved in maintaining such a token coin at a two-shilling value and in exchanging the new dollar for the old one.

(2) The danger of counterfeiting, which in the Orient would be great in the case of coins, like the ones proposed, whose nominal value was so far above their bullion value.

[1] *Ibid.*, Appendix xvii.

[2] *Ibid.*, Appendi xxviii, no. 12. See also Appendix no. 54 of the Index and Appendices to the Evidence Taken before the Committee Appointed to Enquire into the Indian Currency, London, 1889.

(3) The difficulty of the government's keeping its intentions secret until the final passage of the law; and on the other hand, if the public were notified in advance, the danger of an inundation of British and Mexican dollars, to take advantage, either legally or illegally, of the two-shilling dollar exchange offered.

(4) The difficulty of inducing the natives, who were accustomed to judge the value of a coin by its weight, to take, at a higher value, a coin of a little more than half the weight they were accustomed to.

(5) The difficulty of inducing the native holders of the old dollars, especially those of the Federated Malay States, to exchange them for a paper currency with which they were not familiar.

As a result of these and other similar objections, nothing came of the plan proposed.

The rejection of this plan gave a quietus to the subject of a gold standard for the Straits Settlements, as far as any official action was concerned, until the middle of 1902. On June 9, 1902, the Singapore chamber of commerce again addressed a letter to the colonial government asking whether

> in view of the recent serious decline in the value of the dollar current here, the violent fluctuations in the price of silver and the extreme uncertainty as to the future of this metal, all of which are not only causing great inconvenience to the trade of the colony but constitute grave obstacles to the development of its natural resources by stopping the flow of capital from other parts of the world,

the government were prepared to investigate into "the feasibility and expediency of securing fixity of exchange."[1] This letter, together with certain subsequent communications upon the subject, was forwarded to the colonial secretary in July.

The result of these communications was that a committee composed of Sir David Barbour, Mr. W. Adamson, Mr. G. W. Johnson and Mr. W. Blaine were appointed by the secretary of state for the colonies to consider:[2]

[1] Report of the Straits Settlements Currency Committee, p. 7.

[2] *Ibid.*, p. 3.

(1) The expediency or otherwise of introducing a gold standard of currency in the Straits Settlements and the neighboring Malay States.

(2) The practicability of making the change and the steps which in the opinion of the committee should be taken to effect this object if the change should be decided upon.

The committee began its hearing in London, November 13, 1902, and continued taking testimony until about February 1, 1903. During that time a mass of testimony both verbal and written was taken. The committee's sittings having been in London, it was necessary that the greater part of the testimony should be that of English merchants having trade experience with the Straits Settlements or with the East generally — the class of persons who, it will be noted, naturally would have been most favorable to the establishment of a gold standard. The masses of the population, represented by the natives, and by the Chinese, who do a large part of the business of the Straits Settlements and of the Federated Malay States, could not be heard directly; while through petitions and resolutions they took comparatively little part in the controversy — in fact they were for the most part ignorant of the entire matter. On the whole the evidence seems to show that the weight of opinion among the more intelligent of these classes was on the side of maintaining the *status quo*. The European community, with the exception of the bankers and of a few exporters, were almost a unit in favor of a gold standard.

A detailed discussion of the evidence brought forth in this testimony and published in the minutes of the committee's report is not necessary. The exhaustive discussion during the last decade or more of the effects of a fluctuating standard of value has made knowledge of the evils connected therewith general. The report of the local committee appointed in 1893 to consider the subject of the Straits currency declared that "all the effects remarked on in paragraphs 21–28 of the report of Lord Herschell's committee are in operation in the Straits." This statement was nearly as true in 1903 as in 1893. A few salient features of the conditions leading to the legislation of 1903 may, however, be briefly referred to.

The annual fluctuations in the gold value of the local money during the period 1891 to 1901 are shown in the following table.[1]

RATES FOR BANK BILLS ON LONDON.

(Four Months Sight.)

YEAR.	HIGHEST.	LOWEST.	AVERAGE.
	s. d.	*s. d.*	*s. d.*
1891	3 $6\frac{1}{4}$	3 $1\frac{3}{8}$	3 3
1892	3 $1\frac{3}{8}$	2 $9\frac{1}{8}$	2 $10\frac{5}{8}$
1893	2 $9\frac{5}{8}$	2 $4\frac{1}{2}$	2 $7\frac{3}{8}$
1894	2 $3\frac{7}{8}$	2 $\frac{1}{8}$	2 $1\frac{3}{4}$
1895	2 $3\frac{1}{16}$	1 $11\frac{1}{2}$	2 $1\frac{1}{2}$
1896	2 3	2 1	2 $2\frac{1}{8}$
1897	2 $1\frac{13}{16}$	1 $9\frac{9}{16}$	1 $11\frac{15}{16}$
1898	2	1 $10\frac{3}{16}$	1 $11\frac{5}{16}$
1899	2 $\frac{5}{16}$	1 $11\frac{3}{8}$	1 $11\frac{15}{16}$
1900	2 $2\frac{3}{16}$	1 $11\frac{3}{4}$	2 $\frac{1}{2}$
1901	2 $1\frac{5}{8}$	1 $9\frac{7}{8}$	1 $11\frac{11}{16}$

The Straits Settlements were not, like India, practically forced to the establishment of a fixed par of exchange by the existence of a large public debt payable in gold. The Straits government itself had no public debt, while the small debt of the Federated Malay States was a local interstate debt, payable in the local silver currency. Both governments, however, regularly had large sterling obligations to meet in the purchase of supplies, while the salaries of all the higher officials of the Straits government were on a sterling basis.[2] Inasmuch as these charges remained relatively fixed regardless of the fluctuations in the value of the ocal dollar, while the gold value of the revenue received tended to fall rapidly with the fall of exchange, the government found itself handicapped in meeting its obligations.

The relative importance of the Straits Settlements' trade during the period from 1891 to 1901, with gold and silver countries

[1] Minutes of Evidence and Appendices of the Straits Settlements Currency Committee, p. 143.

[2] *Vide* Colonial Office List, 1903, pp. 309–311, and August Huttenbach, The Silver Standard and the Straits Currency Question, Singapore, 1903, pp. 9 and 10.

respectively, may be seen from the following figures representing imports and exports of merchandise inclusive of intersettlement trade and exclusive of treasure.[1]

TRADE WITH SILVER STANDARD COUNTRIES.
($,000 omitted.)

YEAR.	EXPORTS.	IMPORTS.	TOTAL EXPORTS AND IMPORTS.
1891	45,579	83,937	129,516
1892	48,140	93,946	142,086
1893	44,992	83,891	128,883
1894	53,771	94,068	147,839
1895	55,434	96,877	152,311
1896	57,079	96,260	153,339
1897	57,299	98,769	156,068
1898	64,747	98,615	163,362
1899	68,710	121,945	190,655
1900	76,294	135,402	211,696
1901	79,965	142,033	221,998

TRADE WITH GOLD STANDARD COUNTRIES.
($,000 omitted.)

YEAR.	EXPORTS.	IMPORTS.	TOTAL EXPORTS AND IMPORTS.
1891	68,910	44,895	113,805
1892	74,693	43,436	118,129
1893	89,538	68,547	157,085
1894	104,971	88,613	193,862
1895	105,394	88,468	193,862
1896	104,698	89,936	203,634
1897	114,878	99,591	214,469
1898	129,394	124,387	253,781
1899	157,145	133,346	290,491
1900	174,621	154,994	329,615
1901	176,808	150,776	327,584

While the figures show a healthy growth of trade in general, it is noteworthy that the greater proportion of the foreign trade

[1] Minutes of Evidences and Appendices of the Straits Settlements Committee, pp. 130 and 131.

at the close of the period was with gold standard countries, that the trade with those countries was a rapidly growing one, that its growth was more than commensurate with that with the silver standard countries, and that despite the severe handicap given to the import trade with gold standard countries by a falling exchange, the reported imports from those countries had been for some time larger than those from silver standard countries, while the growth of the former had been much the more rapid. As would have been expected on a falling exchange, the exports to silver standard countries lagged far behind those to gold standard countries.

While it is doubtless true that most of the trade with gold standard countries appears in the colonies' trade statistics, and that a considerable part of what Mr. August Huttenbach calls the "Hinterland trade" with silver countries does not appear, and that dollar for dollar the trade with the silver standard countries is somewhat more important to the colony than that with the gold standard countries, it is none the less true that the Straits' foreign trade both actually and prospectively should logically have placed it among the gold standard countries long before 1903.[1]

One of the most serious disadvantages of the existing silver standard, the committee believed, was the discouragement to the investment of foreign capital in the colony, due to the apparent, and in many cases real, decline in the sterling value of capital invested in the colony.

These facts, together with the element of uncertainty and speculation brought into business by a fluctuating exchange, the feeling that exchange had fallen to the point beyond which a further fall would cease to be profitable to the export trade, and the movement on the part of neighboring countries toward a gold basis, forced the committee to the conclusion that the time was ripe for placing the Straits Settlements, the Federated Malay States and Johore upon a gold standard.

Three principal methods of making the change to the gold standard were considered. The plan suggested by the Sing-

[1] *Vide* on this subject August Huttenbach, Memorandum on the Straits Settlements Currency Scheme, Penang, August 10, 1903, pp. 2–3.

apore chamber of commerce in 1897 was believed to be impracticable for the reasons already stated. The introduction of the Indian currency system, which was recommended by five members of the local currency committee in 1893, involving as it did a change in the unit of value from the dollar to the rupee, the adoption of a currency which would be largely controlled by another country, and whose bullion value was far below its face value, found comparatively few supporters in 1893, whatever might have been the merits of the plan ten years before.

The plan finally recommended by the unanimous vote of the committee may best be briefly stated in their own words:[1]

A special Straits dollar of the same weight and fineness as the British dollar at present current in the East [to be gradually substituted] for the Mexican and British dollars, the latter dollars . . . . [to be] demonetized as soon as the supply of the new dollars is sufficient to permit of this being done with safety. Under this plan it will be necessary for the Straits to obtain a considerable supply of the new dollars, and as soon as this is received, the new dollars should be made full legal tender concurrently with the Mexican and British dollars, and steps should be taken to put them into circulation. The first supply of new dollars might be obtained . . . . by remitting to one of the Indian mints a portion of the coin reserve of the currency commissioners to be melted down and converted into the new Straits dollars, and this process might be continued until practically the whole of the coin reserve is converted into new dollars. . . .

Simultaneously with the arrival of the first supply of the new dollars and with the making of them legal tender, the import of Mexican and British dollars should be temporarily prohibited and the export of the new dollars should also be prohibited. As there is ordinarily a large import of Mexican and British dollars into the Straits, and subsequent export of them, we think it likely that when their import is prohibited there would be a tendency toward a considerable drain of these coins from the Straits Settlements, and if the new dollars are freely supplied, the change of currency might be completed without any great delay.

When the currency is so largely composed of the new dollars as to justify the measure, the Mexican and British dollars should be finally

[1] Report of the Straits Settlements Currency Committee, May, 1903, pp. 12 and 13.

demonetized and the Straits Settlements would then be in the position in which India was when the change of standard was undertaken in that country, with, however, the very important advantage that there would not be an enormous proportion of the new coins either hoarded or circulating in foreign countries, which might, by being thrown into circulation, indefinitely delay the establishment of the gold standard.

After the Straits Settlements had arrived at this stage, the procedure might be exactly the same as it was in the case of India, *i.e.*, after sufficient Straits dollars had been coined to meet the requirements of business in the colony and the adjoining States, the coinage of dollars would cease until the exchange value of the dollar had reached whatever value in relation to the sovereign might be decided on by the government as the future value of the Straits dollar. After this stage is reached the Straits Government would issue the new dollars in exchange for gold, and at the fixed rate.

When the gold standard is established, it would not be indispensable that any gold coins should be made legal tender in the colony and the States. But the government should be prepared not only to give in exchange for a sovereign such a number of dollars as are hereafter declared equivalent to a sovereign, but also to give sovereigns in exchange for dollars at the same rate so long as gold is available, or to give bills on the Crown agents in London based on the fixed rate of exchange.

The committee expressed the opinion that it was "desirable that the standard of value and the currency of the Straits Settlements and the Federated Malay States should continue to be identical, and they hold the same opinion with regard to Johore."

The above recommendations of the currency committee were first published in Singapore on May 7, 1903, and were adopted *in toto* by the legislative council on May 29, and accordingly represent the law under which the new currency is established.

On September 25, 1903, an ordinance was passed authorizing the governor in council, subject to the approval of the secretary of state, to issue an order prohibiting the importing, circulating or holding in one's possession of certain coins to be specified in the order, after a date fixed therein, under penalty of heavy fines and the forfeiture of the coins thus illegally used or held.

As soon as it became evident that the importation of Mexican and British dollars into the Straits Settlements was likely to be

prohibited when the new Straits dollars began to arrive, sterling exchange rose in the Straits as compared with neighboring countries, and a strong tide of Mexican and British dollars began to flow from Hongkong, the Philippines, China, French Indo-China and other neighboring countries toward Singapore, in anticipation of the future prohibition of their importation and their redemption in the new dollars. The money market was so flooded with this money that considerable currency exportations were soon found profitable.

The new dollars began to arrive early in October, and the governor, pursuant to the authority given him in the ordinance of September 25, 1903, immediately upon the arrival of the first shipment of the new coins, issued an order prohibiting the exportation from the colony of the Straits Settlements dollar and the further importation into the colony of Mexican or British dollars. The new dollars are being coined at the Bombay mint, and since October 1 nearly every boat coming to Singapore from Colombo is said to have brought several hundred thousand of the new dollars. The money received is being placed in circulation through the instrumentality of the treasury and the banks.

It is yet too early to pass judgment upon the success of the scheme adopted, and prophecies with reference to currency problems in the Orient are exceedingly dangerous. Moreover the details of the methods to be adopted for maintaining the sterling parity when it once has been attained and for adjusting the currency supply to the demands of trade have not yet been made public. So far the Straits have simply begun to substitute one silver currency for another, and the colony will continue to be on a silver standard until the old local currency has been displaced by the new, and the new currency has been raised to a fixed sterling equivalent yet to be decided upon. This process anywhere would be a slow one; in the Orient, where custom and prejudice are such dominant factors in all matters pertaining to the currency, it is likely to be especially slow.

The promptness and ease with which the change will be effected depend very largely upon the future course of silver and the sterling par of exchange which the Straits government finally adopts. It is generally believed that the par of exchange fixed

will be two shillings. This is the rate that has been most persistently urged, a rate which would not materially alter the existing unit of account, or the more recently contracted long-time obligations, a rate in harmony with the units of neighboring countries, as for example, the Japanese yen, the Philippine peso, the French piastre, the Mexican and British dollars, and a rate easily assimilated to the currency of the home country. If silver should continue anywhere near its present price the silver content of the new dollar, moreover, would, at a two-shilling rate, be sufficiently large to offer little inducement to counterfeiting, and on the other hand, sufficiently below the nominal value of the dollar to offer little probability of its being melted down for bullion.

If silver falls so that it shall become necessary to raise considerably the value of the new dollars in order to bring them to the sterling par decided upon, the time required to effect the change will be a long one, and the monetary stringency, which will be a condition *sine qua non* to raising their value, will be severe; while the additional burden placed upon that part of the debtor class who have long-time obligations contracted at times when the monetary unit was considerably below the par of exchange fixed upon, and payable in the new and higher priced dollar, will be a heavy one, except in so far as it may be lightened by special legislation or by increased incomes (largely temporary) arising from the adoption of a monetary unit of account of a higher value. In these respects a low price of silver is likely to entail upon the Straits Settlements a repetition of the unfortunate experiences which India passed through during the period from 1893 to 1898.

During the time that the value of the new dollar is being raised above the value of the Mexican and British dollars, at a parity with which it shall have been permitted for a considerable time to circulate, great care will be necessary to prevent the illicit importation of these coins, which would tend to displace the new dollars and to prevent the realization of the currency scarcity necessary to raise the new dollar to the sterling par adopted. To prevent this contingency it seems quite probable, that if the Mexican and British dollars are materially cheaper in the out-

side market than the sterling value fixed upon for the new Straits dollar, it will be found necessary to put into effect the measures penalizing the circulation of the old currency, authorized in the ordinance of September 25, 1903.

If on the other hand the price of silver rises so that the market value of the old dollars is practically equal to the sterling value given to the new dollar, and if their value remains at this high point long enough to create a prejudice in favor of the new dollar and to establish in the business community the habit of using it, a subsequent fall in the value of the old money would leave the new dollar in possession of the field, and offer little inducement toward the illicit importation of the Mexican or British dollars. Under this contingency the penalizing of the circulation of the old money would probably be unnecessary.

E. W. KEMMERER.

MANILA, P. I., March 1, 1904.